THE PROBLEM OF SHAREHOLDER ENGAGEMENT IN SUSTAINABILITY AGENDAS

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SHAREHOLDER ENGAGEMENT ENTRENCHES THE ALREADY SUBSTANTIAL BARRIERS TO CORPORATE SOLUTIONS TO SUSTAINABILITY

- Profit dominated – management and shareholders
- Glasgow Financial Alliance for Net Zero- 2050 goal unrealistic
- Investment too high, incentives too low

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WHY?

- Significant shareholders who push for profit maximisation, are both more in control of, and less embedded in, the companies in which they own shares
- Shareholders are more empowered in law and governance
- States are bound to the imperative of the market and corporate capitalism.
- Profit maximising is not compatible with the investment in green innovation required to meet sustainability goals

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1. MORE CONTROL LESS EMBEDDED

- Centralisation of capital
- FTSE 100 ownership, majority foreign institutions

Table 1:
Holdings of FTSE 100, Alternative Investment Market and other quoted companies by beneficial owner

At 31 December 2016			
	Percent		
	FTSE 100	Other quoted	AIM
Rest of the world	56.0	48.5	42.8
Individuals	9.5	19.4	29.7
Unit trusts	9.1	10.4	11.3
Other financial institutions	8.1	8.3	8.3
Insurance companies	5.0	5.0	1.8
Pension funds	3.0	3.0	2.8
Public sector	1.5	0.0	0.0
Private non-financial companies	2.6	1.1	0.2
Investment trusts	2.0	2.3	2.4
Banks	2.0	1.2	0.4
Charities, churches, etc.	1.1	0.7	0.4
Total[1]	100.0	100.0	100.0

Source: Office for National Statistics

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HETEROGENEITY: PASSIVE V ACTIVE INVESTORS

- Passive investors
- Spread across index, little monitoring on any issue
- Common Ownership – focus on increase shareholder value at the expense of R&D
- Active investors
- Going Private
- Buy outs constraining choice

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2. SHAREHOLDERS ARE MORE EMPOWERED IN LAW AND GOVERNANCE

- S.172. win, win-win or win?
- Post GFC
- Shareholder stewardship
- Say on Pay
- SRI

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SRI

- US, $8.72 trillion of managed funds use ESG criteria-increasing ESG requirements
- UN Principles for Responsible Investment (PRI) network 1750 signatories who manage $70 trillion of funds
- But little real impact on sustainability ie
- Parnassus - no fossil fuels. Invest where stock value lower than average given assets
- Jupiter Assets management (UK) – no nuclear power or tobacco, 28 in financial institutions, 68% in FTSE 100
- Corporate Culture: Index, principle based norms, performance indicators, high profit
- Homeopathic quantities of sustainable activities enhance profits

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3. STATES BOUND TO THE IMPERATIVE OF THE MARKETS AND CORPORATE CAPITALISM

- Promised $100 billion not met and 80% loans
- Insufficient - $50 trillion needed (Morgan Stanley 2015)
- State subsidy of fossil fuels

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4. PROFIT MAXIMISING NOT COMPATIBLE WITH THE INVESTMENT IN GREEN INNOVATION REQUIRED TO MEET SUSTAINABILITY GOALS

- corporate investment for increased production of fossil fuel
- investors prefer non capital-intensive corporations
- Large corps hold onto capital
- Small (zombie) corps no flexibility

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IS IT ALL BLEAK?

YES

And, developing countries feel impact of climate change

BUT states can make a difference through

- shareholder control mechanisms
- effective environmental regulation
- tax
- effective regulation to curtail tax avoidance
- Investing in retraining, sustainable infrastructure and development

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